

SUBCOMMITTEE NO. 2

Agenda

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<u>Item</u>	<u>Department</u>	<u>Page</u>
0540	Secretary for Resources.....	2
3600	Department of Fish and Game	3
3640	Wildlife Conservation Board	17
3720	California Coastal Commission	18
3760	State Coastal Conservancy	20
3860	Department of Water Resources	21
3940	State Water Resources Control Board.....	29

Resources—Environmental Protection—Energy

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0540 Secretary for Resources

1. Conservation Easement Registry

Previous Subcommittee Direction. At the March 6 meeting of the Subcommittee, staff was directed to work with the Office of the Secretary, DOF and the LAO to develop a portal for identifying and linking up existing databases of state-owned and state-funded conservation easements. A centralized database with this information currently does not exist.

Response. The Office of the Secretary surveyed the departments, boards, and conservancies under its jurisdiction to determine if and how conservation easements are tracked by the individual departments. The office determined that the Department of General Services maintains a database with all of the information on the state-owned easements regardless of which state entity purchased the easements. Furthermore, the office found that the Wildlife Conservation Board, Department of Fish and Game, and Department of Conservation all have individual tracking systems for tracking non-state owned conservation easements that were funded with state money.

Staff Comments. Staff finds that the lack of a centralized database for all state-owned and state-funded conservation easements makes it more difficult to collect data for habitat conservation planning. Furthermore, it makes planning for future conservation easements and land acquisitions more difficult.

Staff Recommendation. Staff recommends that the Subcommittee approve \$100,000 in General Fund monies to support the development of a consolidated database for conservation easements owned by the state and/or funded with state monies. The database should contain, at a minimum, the following pieces of data on each easement:

- Purpose of the easement,
- Location of the easement by county and nearest city,
- Identity of the easement holder,
- Size of the easement,
- Date of the easement transaction,
- Source of the funding,
- State's share of the cost of the easement, and
- County recorder number.

3600 Department of Fish and Game

1. Basic Budget Transparency

Governor's Budget. In late March, the department submitted the supplemental report language requested as part of the 2005 budget. This report did not provide sufficient detail to determine the level of activities being performed by the department and the funding dedicated to each activity. The department has indicated that its internal workload tracking system and budgeting system do not make it possible to report this information.

The department has initiated a multi-phase project with external consultants to develop systems to allow the department to provide the Legislature and the public with the information requested in the 2005 supplemental report. Work on this project was started in the fall of 2005 and is projected to continue through calendar year 2006.

Previous Subcommittee Direction. At the April 24 meeting of the Subcommittee, information was requested from the department on its timeline for completing its current work plan to modify current workload tracking and budgeting systems. The Subcommittee also requested staff, the department, the LAO and DOF to work on supplemental report language that mirrors the report requested in 2005 on activities, statutory mandates, funding sources, and outcomes, including setting an appropriate deadline for the report.

Update. The department indicates that it is still developing a Corrective Action Plan with consultants it has retained with \$200,000 provided in the 2005 budget. The department has agreed to meet with legislative staff on a quarterly basis, or more if needed, to update staff on its progress in putting in place a new workload tracking system that will enable the department to provide the Legislature with the data that it has requested. Furthermore, the department indicates that it will not expend all of the monies in the budget year and will need to reappropriate these monies to continue work to put in place new systems that will create better transparency for how DFG spends its money.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve budget bill language to reappropriate \$150,000 in General Fund monies remaining for consulting contracts to assist the department in modifying its current workload tracking and budgeting systems.
- Approve supplemental report language to require the department to provide a final report that contains information consistent with what was requested in the 2005 supplemental report by a date that is to be negotiated with the department and staff.

2. Fish and Game Preservation Fund

Governor's Budget and Finance Letter. The Governor's Budget and Finance Letter (dated March 30, 2006) proposes \$4.7 million in General Fund monies to address the shortfall in the non-dedicated account of the Fish and Game Preservation Fund. In addition, the budget and

Finance Letter also propose to shift \$1.6 million in expenditures funded by the non-dedicated account to various dedicated accounts. The Governor's Finance Letter also proposes \$1.2 million in General Fund monies to address the revenue shortfall projected from the closing of salmon fishing season on the North Coast.

May Revision. The May Revision proposes \$19.9 million to eliminate the structural deficit problem in the Fish and Game Preservation Fund's individual accounts. Specifically these funds will be used to address the deficits in the following sub-accounts of the Fish and Game Preservation Fund:

- \$10.8 million in the non-dedicated sub-account;
- \$7.6 million in the Lake and Streambed Alterations Dedicated sub-account;
- \$1.5 million to repay a 1988 loan made to the Native Species Conservation and Enhancement sub-account from the non-dedicated sub-account.

Previous Subcommittee Direction. At the April 24 meeting of the Subcommittee, the following actions were taken:

- Adopt the budget proposals to increase General Fund by \$4.7 million to address the ongoing imbalance in the non-dedicated account of the Fish and Game Preservation Fund.
- Adopt the budget proposal to shift \$1.6 million in expenditures from the non-dedicated account in the Fish and Game Preservation Fund to various dedicated accounts.

The Subcommittee also requested additional information from the department on the status of closing the salmon fishing season and the need to add \$1.2 million in General Fund to address the projected revenue shortfall to the account. The staff were also requested to work with the department, DOF and the LAO on ways to address the structural deficits in some of the sub-accounts within the Fish and Game Preservation Fund as well as trailer bill language to require annual reporting of the fund conditions for all dedicated and non-dedicated revenues sources within the Fish and Game Preservation Fund.

Justification. The May Revision proposal will enable the Fish and Game Preservation Fund to become solvent. The funding is needed in order to avoid reductions to enforcement, environmental review, and management of state-owned lands. Furthermore, the department indicates that the National Marine Fisheries Service took action to partially close the salmon season on the North Coast of California on April 28, 2006. The department indicates that \$1.2 million is a conservative estimate of the revenue loss it could experience from the closure of this fishery.

Staff Comments. Staff finds that the department has not budgeted a reserve in the non-dedicated sub-account. Therefore, if revenues decline, the department may have an imbalance that would need to be corrected with a corresponding reduction in expenditures. Ideally, the department should carry a fund balance in each of the sub-accounts to avoid budget imbalances in the future. This is consistent with a recommendation made by the LAO to require the department to maintain a minimum reserve in each sub-account.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve Finance Letter proposal to approve \$1.2 million in General Fund monies to backfill the revenues shortfall predicted due to the closure of the salmon season in Northern California.
- Approve May Revision proposal and approve the following budget bill language to clarify that these funds are to be used to balance the sub-accounts within the Fish and Game Preservation Fund.

Provision:

X. Of the funds appropriated in this item, \$10,800,000 is one-time funding to eliminate a projected deficit in the Fish and Game Preservation Fund--Non Dedicated Account of a like amount, \$7,600,000 is one-time funding to eliminate a projected deficit in the Lake and Streambed Alteration Account of a like amount; and \$1,500,000 is for the repayment, including interest, of a 1988 loan to the Native Species Conservation and Enhancement Account from the Fish and Game Preservation Fund—non dedicated account.

- Approve trailer bill language to require that fund balances for the non-dedicated subaccount and a summary of the fund balances for the dedicated sub-accounts be reported in the annual budget display. The trailer bill language should also require annual reporting of the fund conditions for each sub-account in the Fish and Game Preservation Fund. This report should be available on the department's website at the time the budget is released annually.

3. Trout Fish Hatcheries

Governor's Budget. The Governor's Budget proposes \$13.7 million (\$12 million from the Fish and Game Preservation Fund and \$1.7 million from federal funds and reimbursements) to fund AB 7, which is less than what is required under AB 7. The Governor also proposes trailer bill language that would make the following changes to AB 7:

- Extend the schedule for achieving the trout production goals set forth in AB 7.
- Reduce from one-third to 27 percent the amount of sport fishing fees that would be used for the purposes of AB 7.
- Allow for federal funds and reimbursements to be used to meet the requirements of AB 7.

The budget also proposes \$6 million in General Fund to "hold harmless" the programs that would be affected by the redirection of sport fishing license revenues to hatchery operations. These programs include management of the department's wildlife areas, resource conservation planning, environmental document review, and other projects to enhance sport fishing opportunities and address unhealthy fish populations.

Finance Letter. A Finance Letter (dated April 18, 2006) proposes to amend the budget proposal to implement AB 7. This proposal rescinds trailer bill language proposed by the administration in January that would have reduced from one-third to 27 percent the amount of sport fishing fees that would be used to support AB 7 and extended the schedule for achieving the trout production

goals set forth in AB 7. (The proposal keeps trailer bill language that allows the department to utilize federal funds to meet the minimums specified in the funding formulae in AB 7.) These proposed changes to the trailer bill language increase the costs of implementing AB 7 by \$3 million. The administration proposes \$3 million in General Fund monies to offset the redirection of sport fishing fees to hatchery operations.

The Finance Letter also establishes 37 new positions to implement AB 7, including 14 temporary help positions. The department also proposes to transfer \$17 million to the Hatchery and Inland Fisheries Fund, which is a new fund within the Fish and Game Preservation Fund created by AB 7.

Previous Subcommittee Direction. At the April 24 meeting of the Subcommittee, this issue was held open pending a plan from the administration on how it plans to implement AB 7.

Update. The department has provided an implementation plan for AB 7 to the Legislature. The department proposes to allocate the additional \$9 million in sport fishing fees dedicated to hatchery operations and the Wild Trout program to fund the following:

- \$1.3 million to fund 30 new positions for the hatchery program.
- \$663,744 to fund 14.5 existing positions for the hatchery program that are currently funded with federal funds.
- \$651,000 for seven new positions for the Heritage and Wild Trout program.
- \$5.3 million for operations, equipment, capital outlay, and deferred maintenance for the hatchery program.
- \$1.1 million for operations, equipment, capital outlay, and deferred maintenance for the Heritage and Wild Trout program.

Staff Comments. Staff finds that most of the department's hatchery facilities have significant deferred maintenance and some of the facilities do not meet discharge standards required by the State Water Resources Control Board. Furthermore, the fish hatchery goals set out in the legislation may require major capital outlay to increase capacity and reduce waste discharges from the facilities. The department has not proposed any facility upgrades in the implementation plan even though it is well known that some facilities do not meet current water quality standards.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve revised Finance Letter proposal.
- Approve trailer bill language to allow federal funds to be utilized to meet minimums specified in the AB 7 funding formula.
- Approve budget bill language to allow the department flexibility to expend funding from the Hatchery and Inland Fisheries Fund on capital outlay projects with 30 day notification of the JLBC.

4. San Joaquin River Restoration

Background. The San Joaquin River historically supported a large salmon population. Its flows have been extremely important to the agricultural development of the San Joaquin valley. However, at present, 100 percent of the river's flows are being diverted at or immediately below Friant Dam, causing sixty miles of the river to dry up and destroy any fisheries that may have existed. Furthermore, the water that flows in the lower river that enters the Delta is stagnant and polluted and impairs water quality in the Delta. This impacts all parties exporting water from the Delta and also negatively impacts the environment.

In 1998, the Natural Resources Defense Council (NRDC) sued the U.S. Bureau of Reclamation (USBR) and the Friant Water Users Authority (FWUA) (NRDC v. Rodgers) claiming that current water management practices destroyed native fisheries in the river. In response, DWR entered into a contract with the FWUA in cooperation with the NRDC in the amount of \$15.7 million from Proposition 13 bond funds for feasibility studies and pilot projects to start a restoration effort for the San Joaquin River. (The FWUA has expended \$6.5 million on a study that is still incomplete.)

However, in April of 2003, settlement discussions between NRDC and FWUA broke down and the parties returned to court. In August 2004, a federal judge granted NRDC's motion for a court-ordered plan to restore the San Joaquin River. Settlement negotiations between the parties continue today and the court has set a June deadline for reaching an agreement.

Governor's Budget. The Governor's Budget proposes \$5 million in Proposition 13 bond funds over a three-year period. The budget contains \$750,000 for expenditure in 2006-07 to support three new positions (one temporary) and contracts to evaluate habitats and water supply alternatives that might be implemented to offset water supply losses that would result from redirection of San Joaquin River water supplies for restoration purposes. Furthermore, the funds will be used to evaluate other restoration issues, including water quality, water temperature, fish production, fish passage, and fish spawning/rearing habitat restoration. The department is co-lead with the Department of Water Resources and will oversee issues relative to flora and fauna.

Staff Comments. Staff finds that there is a significant amount of work to do to restore the San Joaquin River. The department does not plan to study or evaluate flow requirements for the river since these are the subject of the litigation. However, staff finds that the deadline for settlement negotiations is approaching in June of this year. Therefore, either a settlement by the parties or a decision by the court will dictate the path of the restoration. This will and should impact how the department proceeds with its restoration.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve the budget proposal.
- Approve the following budget bill language:

Provision X.

All funds provided in this item for San Joaquin River Restoration activities shall become available only after a final settlement has been executed by the plaintiffs, federal defendants, and Friant defendants in the litigation styled

Natural Resources Defense Counsel v. Rodgers (NRDC v. Rodgers), and approved by the court. Once available, all such funds provided to DWR and DFG shall be expended to:

- 1. further the ecosystem restoration and water management goals and purposes of the settlement in NRDC v. Rodgers;*
- 2. support cooperation between and among state agencies and parties settling NRDC v. Rodgers in implementing such settlement;*
- 3. provide all necessary funding for any independent implementation or administration of such settlement, including any technical committee, called for by the settlement for the period July 1, 2006 to June 30, 2009; and*
- 4. safeguard the State of California's sovereignty over the San Joaquin River, consistent with the settlement and any federal legislation implementing such settlement.*

5. Department Re-Harmonization

Finance Letter. A Finance Letter (dated March 30, 2006) proposes changing the name of the department's Program 40 from Conservation Education and Enforcement to Enforcement and proposes transferring funding for the conservation education program to Program 25—Hunting, Fishing, and Public Use.

Update. The department has provided additional written information outlining the reharmonization efforts it is undertaking. The efforts include the following:

- Create a straight line enforcement branch.
- Reallocate program activities for native anadromous fish and of the Watershed Branch into the Fisheries Branch and Habitat Conservation Planning Branch.
- Reallocate program activities of the Lands and Facilities Branch into the Wildlife Branch and Habitat Conservation Planning Branch.
- Consolidate geographic information system activities into the Biogeographic Data Branch.
- Consolidate the Resource Assessment Program into the Wildlife Branch.
- Consolidate grants administration into a Grants Branch in the Administration Division.
- Consolidate information technology functions into an Information Technology Branch in the Administration Division.
- Consolidate the Office of Natural Resource Education and Conservation Education into the Office of Communications, Education, and Outreach Division.

The department indicates that the efforts listed above are intended to improve efficiency and effectiveness while enhancing transparency and communication.

Staff Comments. Staff finds that additional information is needed regarding the impact of reallocating program activities to other branches within the department. Staff is generally supportive of efforts to consolidate similar functions, including information technology, grant administration, and enforcement efforts. However, it is unclear how priorities might change with the consolidation of other program activities. For example, it is unclear how priorities related to

the Resource Assessment Program would be changed by consolidating this program with the Wildlife Branch, which is responsible for the department's hunting programs.

The department has indicated that it is willing to meet at least quarterly with staff to get updated information on the department's efforts to further reharmonize and make improvements to its departmental structure.

Staff Recommendation. Staff recommends that the Subcommittee approve the Finance Letter proposal to consolidate enforcement in Program 40.

6. Fisheries Restoration Grant Funds

Governor's Budget. The Governor's Budget proposes \$4 million in General Fund monies for the Fisheries Restoration Grant program to restore habitat for Coho Salmon and Steelhead Trout. These funds will be used to leverage approximately \$6.5 million in federal funding for this activity.

May Revision. The May Revision proposal includes \$10 million in General Fund monies for salmon and steelhead restoration in the Klamath Basin. Specifically, the department proposes to allocate \$9.8 million for restoration projects in the Klamath Basin and \$250,000 for overtime pay for game wardens to patrol areas and water with populations of salmon and steelhead.

Previous Subcommittee Direction. At the April 24 meeting of the Subcommittee, staff approved this budget proposal and requested staff to evaluate allocating additional funding to this item.

Justification. The National Marine Fisheries Service recently shut down commercial salmon fishing along the North Coast of California due to the low numbers of salmon on the Klamath River system. Low flows, degradation of habitat, and dams that impede fish passage along the Klamath River have greatly reduced the migratory salmon living in this river system. Staff finds that additional funding is needed to restore fish habitat along the river system and its tributaries to increase fish survival and avoid fishing restrictions.

Staff Comments. Staff finds that money awarded through the Fisheries Restoration Grant Program are allocated through a competitive grant process. Projects on the Klamath are eligible and have competed for funds in this program. However, the department indicates that monies could take up to a year to be allocated through the competitive grant process. Since the salmon populations on the Klamath system have reached very low levels, the department proposes to allocate \$10 million to address these needs directly through a non-competitive process that will have specific criteria and require matching funds. Staff finds merit in allocating money to the Fisheries Restoration Grant Program and setting aside some money to directly affect the Klamath.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve May Revision proposal.

- Approve budget bill language that specifies that \$8 million should be allocated to the Fisheries Restoration Grant Program and \$6 million be allocated for projects on the Klamath River system.
- Approve budget bill language to allocate \$500,000 from the \$6 million for the Klamath River system through a reimbursement to the State Coastal Conservancy, to develop a plan for decommissioning the four lower dams on the mainstem of the Klamath River and for the removal of any dam or migratory impediment on any of the tributary rivers.

7. Land Management

Governor's Budget and Finance Letter. The Governor's Budget and Finance Letter (dated March 30, 2006) has four proposals to enhance management of state-owned lands.

- **Bond Funds.** The budget proposes allocating the remaining \$886,000 in Proposition 12 bond funds to support two 1-year limited-term positions and fund the following projects: (1) the acquisition of short-term wetland easements for the California Waterfowl Habitat Program (\$647,000), (2) other projects to manage and enhance lands owned by the department (\$159,000) and (3) activities to control noxious weeds on DFG land in San Diego County (\$80,000).
- **Endowment Funds.** The budget proposes to spend \$608,000 in interest from the Special Deposit Fund for management and projects on lands received as mitigation for threatened and endangered species. The department currently has \$30 million in endowment funds to manage in perpetuity 5,000 acres of land under 280 different mitigation agreements.
- **Other Capital Outlay.** The budget proposes \$1.3 million in special funds (\$1.1 million Public Resources Account, \$130,000 federal funds, \$75,000 Proposition 12 bond funds) for various other capital outlay improvements on state lands.
- **Management of Bolsa Chica Lowlands.** The Finance Letter requests \$216,000 in reimbursement funds to support three positions to manage the Bolsa Chica Lowlands. The reimbursements are from a mitigation account managed by the State Lands Commission. The Commission received \$17 million through port mitigation for the management and restoration of the Bolsa Chica Lowlands.

May Revision. The May Revision proposes \$8.8 million in General Fund monies for emergency work to repair damaged levees for protection of important habitats on state-owned wildlife areas and ecological reserves. These levees were damaged during the severe flooding that occurred in December 2005 and January 2006. The department is seeking 75 percent in reimbursement from the Federal Emergency Management Agency.

The May Revision also includes \$10 million in General Fund monies for public trust non-game fish and wildlife activities, including \$900,000 and one position for invasive weed control on state lands.

Previous Subcommittee Direction. At the April 24 meeting of the Subcommittee, the following actions were taken:

- Approve the budget proposal to expend the remaining Proposition 12 bond funds to various land management projects.

- Approve the budget proposal to expend endowment funds for management of mitigation properties.
- Approved the Finance Letter proposal to augment staffing to manage the Bolsa Chica Lowlands property.

Department Response. Staff finds that recent legislation (AB 2517, Berg) enacted in 2004 now requires that the department's endowment interest be appropriated through the budget act. Therefore, the department is required to provide annual information in the budget on the revenues earned by the department on its endowment funds. The department concurs with this and does not believe trailer bill language is necessary.

Staff finds that the department has accumulated a significant balance of interest in its endowment account (about \$6 million). The department does not currently have a plan for expending these funds on the lands for which they were intended. The department indicates that it does not have adequate staff to develop a plan for submission to the Legislature in January 2007.

The department indicates that it has not completed an analysis of its infrastructure needs because it does not have adequate staffing.

Justification – Capital Outlay. Some of the department's capital outlay projects involve fencing properties to reduce illegal dumping and environmental degradation by unauthorized off-highway vehicle (OHV) use. The budget proposal allocates \$75,000 from Proposition 99 funds for new fencing in Region 4 (the San Joaquin Valley). Staff finds that funding from the OHV Fund is an appropriate funding source for this activity.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve budget proposal to fund other capital outlay projects, but delete \$75,000 from Proposition 99 and replace with \$75,000 from the OHV fund for fencing and signs to prevent unauthorized OHV use.
- Approve May Revision proposal to repair storm damage on state-owned lands.
- Approve May Revision proposal to allocate funding for invasive weeds control on state-owned lands (\$900,000 of \$10 million proposal to fund non-game fish and wildlife resources), but delete position.
- Approve \$1 million in General Fund monies to augment the department's land management activities and fund eight new positions.
- Approve supplemental report language that requires the department to provide an interim update of its five year infrastructure plan after it has conducted a comprehensive review of its infrastructure and deferred maintenance needs (facilities and lands). The interim update should be due on January 10, 2008.

8. Marine Life Protection Act

Governor's Budget and Finance Letter. The Governor's budget includes \$500,000 from the Environmental License Plate Fund in the base budget to support the department's efforts to implement the Marine Life Protection Act (MLPA). The Finance Letter (dated March 30, 2006)

submitted by the administration includes an additional \$380,000 from the General Fund to support 3.75 existing positions to continue to implement the MLPA. These positions have been supported by a contract with the Resource Legacy Fund Foundation, which will expire on December 31, 2006.

May Revision. The May Revision proposes \$2.6 million in reimbursement authority from the State Coastal Conservancy to fund 11 positions to support the design and management of a network of marine protected areas.

The May Revision also proposes \$10 million in General Fund monies to the department to fund various activities that support the Marine Life Management Act and MLPA. Activities funded include the following:

- 9 positions to coordinate data collection, resource assessment, and research efforts.
- \$1.5 million for an ocean mapping system.
- \$1.4 million for equipment and overtime to increase enforcement efforts.
- \$810,000 for a remotely operated vehicle for deep monitoring.
- Various other one-time contracts for resource assessment studies, research vessel upgrades, and information technology upgrades.

Previous Subcommittee Direction. At the April 24 meeting of the Subcommittee, this issue was held open pending additional information from the department on what it would cost to fund the Marine Life Protection Act in the budget year.

Department Response. The department indicates that a draft report was released on April 20, 2006 that estimates the long-term costs to implement the MLPA. This report estimates that it will cost between \$6 million and \$21 million to implement the Act in 2006-07. However, these figures are estimated to increase over the next decade as the number of protected areas increases.

LAO Recommendation. The LAO finds that the Governor's May Revision proposal deviates from statute and adds unnecessary bureaucratic layers to MLPA implementation. The LAO indicates that the MLPA (Fish and Game Code §2850-§2863) directs the department to implement the MLPA. In contrast, the administration's proposal would direct the State Coastal Conservancy, on behalf of the Ocean Protection Council, to increase its role in approving expenditures to implement the MLPA. The SCC would then contract with DFG to carry out MPLA-related activities. The LAO recommends rejecting the Governor's May Revision proposal and instead recommends providing an appropriation of \$2.6 million from the General Fund directly to DFG for MLPA implementation.

Staff Comments. Staff finds the Governor's proposal confuses to a certain extent the roles of the department and the Ocean Protection Council. The department has the authority to carry out the implementation of the MLPA and should be given the resources to implement this activity. However, since the MLPA is still in the early stages of implementation, the Ocean Protection Council has a broader role in coordinating the implementation of the MLPA with other ocean policies. Since the long-term management and implementation of the MLPA will likely be a joint effort among many entities, it makes sense to have the Ocean Protection Council involved.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve the Governor's Budget and Finance Letter proposals.
- Reject the Governor's May Revision proposal to allocate the \$2.6 million to the State Coastal Conservancy. Instead, allocate these funds directly to the Department of Fish and Game for implementation of the Marine Life Protection Act.
- Approve budget bill language to require the department to expend at least \$3,470,000 of this item on implementation of the Marine Life Protection Act.
- Reject the Governor's May Revision proposal to allocate \$10 million one-time to DFG for various activities to support the Marine Life Management Act. Instead, allocate \$8 million of these monies to the Ocean Protection Council, via the State Coastal Conservancy and \$2 million to DFG for implementation of both the Marine Life Management Act and the Marine Life Protection Act.
- Approve budget bill language to require the council to develop a plan jointly with DFG to expend the \$8 million.
- Approve budget bill language to give the department and the State Coastal Conservancy up to three years to encumber the \$10 million allocated for the Marine Life Management Act and the Marine Life Protection Act.
- Approve \$1 million in ongoing General Fund monies to fund 9 positions to support marine resource assessment and other activities related to MLPA implementation and the marine division.

9. Regulation of Bottom Trawling

Governor's Budget. The Governor's budget does not provide additional funding to implement recent legislation (SB 1459, Alpert) that regulates bottom trawling fisheries.

Previous Subcommittee Direction. At the April 24 meeting of the Subcommittee, additional information was requested on the projected costs to implement recent legislation (SB 1459, Alpert) that regulates bottom trawling.

Department Response. The department has estimated that it will cost \$10.7 million annually for three years to establish the program. Ongoing costs are projected to be only \$1.8 million to manage the program. The department indicates that this legislation created 38 new mandates, many of which require extensive resource assessment and enforcement.

Staff Comments. Staff finds that the department's marine division is generally understaffed and is not able to meet some of its statutory mandates. This includes a mandate established by Public Resources Code §30411 to prepare a programmatic EIR for fisheries aquaculture.

Staff Recommendation. Staff recommends that the Subcommittee approve \$5 million to support 35 new staff and contracts to augment the department's marine division to develop a programmatic EIR for fisheries aquaculture and begin implementation of SB 1459.

10. Early Detection of Avian Influenza

Finance Letter. The Finance Letter (dated March 30, 2006) submitted by the administration requests \$1.1 million in General Fund monies to support one permanent position and 13 temporary help positions to set up a program for monitoring waterfowl and shore bird populations in urban areas for avian influenza. Approximately \$863,000 is proposed to support the positions and to contract with UC Davis for laboratory testing. The remaining funding is one-time to upgrade the department's mobile diagnostic lab equipment.

Previous Subcommittee Direction. At the April 24 meeting of the Subcommittee, additional information was requested on the department's plans to maximize federal funding for this effort.

Department Response. The department indicates that it will receive \$125,000 in federal funds from the U.S. Fish and Wildlife Service to enhance surveillance efforts.

Staff Recommendation. Staff recommends that the Subcommittee approve this Finance Letter proposal.

11. Funding for Non-Game Fish and Wildlife Resources

Background. Information in a recent report released by DFG entitled "California Wildlife: Conservation Challenges" finds that "...success or failure to conserve California's wildlife may well hinge on the level of funding dedicated to wildlife conservation and restoration programs over the next few decades." The report specifically finds that additional funding for the following efforts is needed to effectively protect wildlife and habitat in California:

- **Resource Assessment.** Currently there are major gaps in data available for making decisions about the impacts of a project on a species or even the basic status of a species. Additional information is critical for making decisions, prioritizing expenditures, and planning projects that maximize benefits for wildlife. This investment would improve the efficiency and efficacy of DFG's conservation efforts.
- **Conservation Planning.** Over the past 15 years, California has been implementing voluntary multi-species regional approaches to wildlife habitat conservation in some parts of the state. Expanding these planning processes is critical for maintaining habitats and wildlife corridors before development occurs. These proactive planning efforts are essential in a fast growing state for maintaining key habitats and will also provide increased certainty for landowners.
- **Habitat Management and Restoration.** Over the past 25 years, the amount of land DFG manages has quadrupled from 250,000 acres to about 1 million acres. However, over this same time period, funding for management of this land has not kept pace. Currently there is one DFG person per 10,000 acres and many lands have no dedicated staff. The lack of adequate management on state lands results in vandalism, habitat destruction by invasive species and potential threat of fire.

May Revision. The May Revision proposal includes \$10 million in one-time General Fund monies for public trust non-game fish and wildlife activities, including \$9.1 million for activities other than land management (approved under issue 7). The department proposes to allocate

these monies to various research and resource assessment efforts to increase the department's core scientific expertise.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve the May Revision proposal to allocate \$9.1 million to fund various non-game fish and wildlife resources, but delete positions.
- Approve budget bill language to give the department three years to expend these funds.
- Approve \$3 million in ongoing General Fund monies to support 20 new positions and contracts to increase the department's conservation planning and resources assessment activities.

12. Coastal Wetlands

May Revision. The May Revision also proposes transferring \$5 million in General Fund monies as an endowment to a new Coastal Wetlands Fund for ongoing maintenance of coastal wetlands. The proposal includes trailer bill language that establishes the fund and allocates 60 percent of the interest to DFG for maintenance of coastal wetlands owned by the department and 40 percent the interest to the State Coastal Conservancy for maintenance of coastal wetlands not owned by the department.

Staff Comments. Staff finds that the trailer bill language being proposed by the department is incomplete. More language is needed to clarify how these funds should be expended.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve \$5 million to create a new endowment account for management of coastal wetlands.
- Approve trailer bill language to implement the endowment fund and determine how the money should be allocated.

13. Salary Issues

Background. The department currently has 200 game wardens patrolling all of California. Each warden is responsible for patrolling approximately 1,700 square miles. California currently has the same number of wardens it did in the early 1950s even though the state's population has grown about four times over the same period, putting additional pressure on the state's wildlife resources. Over the last decade, the department has had difficulty in recruiting wardens because of the relatively low pay for a law-enforcement position. Currently the bottom step for a game warden is less than \$38,000 annually, which is significantly less than comparable jobs with the California Highway Patrol. Game wardens are also not paid differential pay for holidays or overtime and must work alone without backup the majority of the time.

The Legislature provided \$5 million from the General Fund to establish 40 new positions in the 2005 Budget Act. These funds were vetoed by the Governor.

Governor's Budget. The Governor's budget does not provide additional funding to increase the number of wardens the department has statewide or propose augmentations to employee compensation levels to address the recruitment problems.

Staff Recommendation. Staff recommends that the Subcommittee approve the following trailer bill language that expresses the intent of the Legislature that the Department of Personnel Administration address the current crisis facing the Department of Fish and Game related to recruiting and retaining wardens.

3640 Wildlife Conservation Board

1. Riparian Habitat Conservation Program and Inland Wetlands Conservation Program

Background. The California Riparian Habitat Conservation Program has a basic mission to develop coordinated conservation efforts aimed at protecting and restoring the state's riparian ecosystems.

The Inland Wetlands Conservation Program carries out the mandates of the Central Valley Joint Venture, a coalition of public, private and nonprofit organizations dedicated to protecting and restoring wetlands and waterfowl populations.

May Revision. The May Revision proposes \$5 million in General Fund monies for restoration and enhancements consistent with the California Riparian Habitat Conservation Program (\$3 million) and the Inland Wetlands Conservation Program (\$2 million).

Justification. The board indicates that it currently has a backlog of restoration projects in both of these programs. The board currently has \$8 million in projects identified in the Inland Wetland Conservation Program and \$24 million in projects identified in the California Riparian Habitat Conservation Program.

Staff Recommendation. Staff recommends that the Subcommittee approve the May Revision proposal.

3720 California Coastal Commission

1. Improving Coastal Access and Development Mitigation

Governor's Budget. The Governor's budget does not provide additional funding for the Coastal Commission to address the backlog of OTDs (offers to dedicate).

Previous Subcommittee Direction. At the April 24 meeting of the Subcommittee, held this issue open pending additional information and further discussions with the administration.

Staff Comments. The department's staffing needs are well documented. The department does not have adequate funding to support all of its permitting activities, which frequently results in delays. Furthermore, the department has not been able to deal with its backlog of OTDs because of a lack of adequate staffing. The department has not raised its fees since 1991 and they are considerably lower than comparable fees at local governments.

Furthermore, staff finds that the commission could be more effective and provide more opportunities for public involvement if its meetings were webcast. Several other commissions and boards within the Resources Agency and Environmental Protection Agency have started webcasting their hearings and it has enhanced the public's ability to participate in the public process.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Adopt trailer bill language that allocates up to \$1 million of the permit fees annually to the State Coastal Conservancy for coastal access projects, including accepting and opening OTDs. The remainder of the fee revenues (\$1.3 million) should be deposited in the General Fund to support the Commission's budget.
- Augment the budget by \$850,000 General Fund to establish eight new positions. Four new positions for the commission's permitting program, two new positions to address the backlog of conservation OTDs, one new position to address the public access OTDs, and one position to help put in place a new fee schedule (this position should be dedicated to the department's permitting program after implementing the new fee schedule).
- Adopt trailer bill language to require annual reporting to the Legislature on the status of outstanding OTDs.
- Augment the budget by \$100,000 General Fund to establish a webcasting pilot project.

2. Review of LNG and Off-Shore Oil Leases

Governor's Budget. The Governor's budget does not provide additional funding for the Commission's energy-related workload.

Previous Subcommittee Direction. At the April 24 meeting of the Subcommittee, \$200,000 was approved to authorize two new positions for the department's energy work.

Staff Comments. Since the Subcommittee meeting, staff finds that there has been increased activity and interest in oil and gas facilities off the coast of California. Staff finds that the Commission is understaffed to address the growing number of projects that will need to be permitted by the commission.

Staff Recommendation. Staff recommends that the Subcommittee take the following action:

- Augment the budget by \$150,000 General Fund to establish one additional position. (This is in addition to the \$200,000 provided at the April 24 hearing of the Subcommittee.)

3760 State Coastal Conservancy

1. Conforming Actions

Marine Life Protection Act. The May Revision allocated \$2.6 million to the State Coastal Conservancy (SCC) for implementation of the MLPA. These funds were to be provided to DFG through a reimbursement contract and expended consistent with direction from the Ocean Protection Council.

Coastal Commission Fees. The Governor's budget proposes expenditure of approximately \$500,000 from the Coastal Access Account that is funded with fees from the California Coastal Commission to fund coastal access projects and other projects.

Staff Comments. Consistent with an action taken in the Department of Fish and Game's budget, the Conservancy's budget for the Marine Life Protection Act should be amended.

The increase in permit fees and trailer bill language approved under the California Coastal Commission will increase the fee revenues allocated to the Conservancy annually to fund coastal access projects and other projects.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions to conform with prior actions by the Subcommittee:

- Reject the Governor's May Revision proposal.
- Increase funding from the General Fund by \$8 million to be expended by the Ocean Protection Council for implementation of the Marine Life Protection Act and Marine Life Management Act.
- Increase the department's expenditure authority from the Coastal Access Account by \$500,000.

2. Ballona Wetlands and Laguna Coast Wilderness Park

May Revision. The May Revision proposes to reappropriate \$21 million in Proposition 12 bond monies for the following projects:

- **Ballona Wetlands.** Reappropriation of \$15 million is needed to restore wetlands on 500 acres of property in the City of Los Angeles. More time was needed to coordinate with the federal government on final project design and implementation of the project.
- **Laguna Coast Wilderness Park.** Reappropriation of \$8 million in Proposition 12 bond monies for acquisitions in important coastal watersheds and scenic areas in an area known as the Laguna Coast Wilderness.

Staff Recommendation. Staff recommends that the Subcommittee approve this budget proposal.

3860 Department of Water Resources

1. San Joaquin River Restoration

Background. The San Joaquin River historically supported a large salmon population. Its flows have been extremely important to the agricultural development of the San Joaquin valley. However, at present, 100 percent of the river's flows are being diverted at or immediately below Friant Dam, causing sixty miles of the river to dry up and destroy any fisheries that may have existed. Furthermore, the water that flows in the lower river that enters the Delta is stagnant and polluted and impairs water quality in the Delta. This impacts all parties exporting water from the Delta and also negatively impacts the environment.

In 1998, the Natural Resources Defense Council (NRDC) sued the U.S. Bureau of Reclamation (USBR) and the Friant Water Users Authority (FWUA) (NRDC v. Rodgers) claiming that current water management practices destroyed native fisheries in the river. In response, DWR entered into a contract with the FWUA in cooperation with the NRDC in the amount of \$15.7 million from Proposition 13 bond funds for feasibility studies and pilot projects to start a restoration effort for the San Joaquin River. (The FWUA has expended \$6.5 million on a study that is still incomplete.)

However, in April of 2003, settlement discussions between NRDC and FWUA broke down and the parties returned to court. In August 2004, a federal judge granted NRDC's motion for a court-ordered plan to restore the San Joaquin River. Settlement negotiations between the parties continue today and the court has set a June deadline for reaching an agreement.

Governor's Budget. The Governor's Budget proposes \$5 million in Proposition 13 bond funds over a three-year period. The budget contains \$1 million for expenditure in 2006-07 to support three new positions (one temporary) and contracts to investigate alternative water supplies, habitat restoration, and fish passage. The department is co-lead with the Department of Fish and Game and will oversee issues relative to fluvial geomorphology, hydrology, and hydraulics.

Staff Comments. Staff finds that there is a significant amount of work to do to restore the San Joaquin River. The department does not plan to study or evaluate flow requirements for the river since these are the subject of the litigation. However, staff finds that the deadline for settlement negotiations is approaching in June of this year. Therefore, either a settlement by the parties or a decision by the court will dictate the path of the restoration. This will and should impact how the department proceeds with its restoration.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve the budget proposal.
- Approve the following budget bill language:

Provision X.

All funds provided in this item for San Joaquin River Restoration activities shall become available only after a final settlement has been executed by the

plaintiffs, federal defendants, and Friant defendants in the litigation styled Natural Resources Defense Counsel v. Rodgers (NRDC v. Rodgers), and approved by the court. Once available, all such funds provided to DWR and DFG shall be expended to:

- 1. further the ecosystem restoration and water management goals and purposes of the settlement in NRDC v. Rodgers;*
- 2. support cooperation between and among state agencies and parties settling NRDC v. Rodgers in implementing such settlement;*
- 3. provide all necessary funding for any independent implementation or administration of such settlement, including any technical committee, called for by the settlement for the period July 1, 2006 to June 30, 2009; and*
- 4. safeguard the State of California's sovereignty over the San Joaquin River, consistent with the settlement and any federal legislation implementing such settlement.*

2. California Water Fund

Background. During the energy crisis that began late in 1999, the State Water Project purchased approximately \$42 million in electricity (referred to as “sleeving” purchases) for the California Independent System Operator (ISO). The State Water Project has been paid \$31.4 million from the ISO for these purchases. According to the department, the State Water Project is still owed \$11.5 million from the ISO.

Finance Letter. A Finance Letter (dated March 30, 2006) proposes to allocate \$11.5 million to repay the State Water Project contractors from the California Water Fund. (Funds contained in the California Water Fund were originally from tideland oil revenues and are considered General Fund monies.). The administration also proposes to transfer \$4.1 million of remaining funds in the California Water Fund to the General Fund.

Staff Comments. Staff finds that the contractors are owed \$11.5 million from the ISO for “sleeving” purchases made in the early stages of the energy crisis. However, the Finance Letter proposal would front the money from a General Fund source to repay the contractors early. It is unclear to staff why the ISO has not repaid these funds to the State Water Project Contractors.

Furthermore, staff understands that the state and some of the investor-owned utilities have cases against the State Water Project Contractors for price gouging during the energy crisis. These transactions are separate from the “sleeving” transactions.

Staff Recommendation. Staff recommends that the Subcommittee deny this request. This action will send this item to conference so that staff can gather more information about why the ISO has not repaid the State Water Project contractors for monies owed.

3. State of Emergency

Governor's Budget. The Governor's budget does not contain any funding for the State of Emergency as it was declared after the budget was released. However, \$103.4 million in General Fund monies was provided to DWR to repair 29 critical erosion areas in the Central Valley as well as additional flood control activities. These funds were received by the department on March 22, 2006 and are being allocated from the General Fund's Special Fund for Economic Uncertainties (also known as the General Fund reserve).

AB 142. Legislation (AB 142, Nunez) was very recently passed by the Legislature to appropriate \$500 million from General Fund monies for levee evaluation and repair and other flood control system improvements. These monies are specifically allocated to fund the Governor's emergency declaration and are not in addition to the \$103 million that has already been allocated.

May Revision. The May Revision proposal contains two proposals to fund various activities to implement the Governor's Executive Order and the intent of AB 142. The proposals request the following resources:

- 25 new positions to be funded by the \$500 million allocated in AB 142.
- \$2.2 million in General Fund monies to support 14 existing programs and three new temporary positions.

Workload Justification. The first proposal will allow the department to begin advance planning, design and permitting activities for work that will be initiated with the \$500 million provided in AB 142. The second proposal extends funding for positions that were established in the current year after the emergency declaration to address levee deficiencies before the start of the next flood season.

Staff Comments. It is unclear to staff why additional monies are being appropriated to support these staff. The department has already been appropriated \$500 million for these purposes and staff costs should be funded from that appropriation. This is consistent with the Governor's proposal to fund 25 new positions.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve additional position authority requested in the May Revision.
- Deny \$2.2 million in additional General Fund to support these positions.

4. State Watermaster Service Program

Background. The Watermaster Service Program was established to ensure water is allocated according to established water rights as determined by court adjudication. This program applies to a number of streams in northern California and several groundwater basins in southern California. The department's Watermaster program provides a physical presence in the field to ensure that water is distributed in a manner consistent with court adjudication and put to beneficial uses.

Legislation (SB 1107, Budget) enacted as part of the 2004 budget authorized DWR to levy fees to cover the entire cost of the Watermaster Service Program. This proposal was proposed by Governor Schwarzenegger. Legislation (SB 80, Budget) enacted as part of the 2005 budget reduced DWR's reimbursement authority for the Watermaster Service Program by \$749,000.

Governor's Budget. The Governor's Budget includes \$1.4 million in reimbursement authority to support 7.5 positions to fully fund the department's Watermaster Service Program from fees paid by water right holders. This funding restores the \$749,000 cut from the 2005-06 budget and provides additional funding to fully implement state law.

Workload Justification. The department indicates that 5.5 positions are needed to restore the positions lost in the current year when the reimbursement funds were reduced from the budget. Some of the water control structures in the Northern District are in poor condition and inoperable, which makes it impossible for the watermaster to accurately and defensibly measure and distribute water. The two new positions requested are to assist water users with design and technical assistance to construct the needed water control structures, as required by the Water Code.

Staff Recommendation. Staff recommends that the Subcommittee adopt this budget proposal.

5. Yuba Feather Flood Protection Program

Finance Letter. A Finance Letter (dated March 30, 2006) proposes to revert \$2.5 million in unexpended Proposition 13 bond funds that were intended for a capital outlay project to construct a flood protection project for the Colusa Basin Drainage District. The construction of this project has been delayed because of concerns raised during CEQA review. Instead of pursuing the project for the Colusa Basin Drainage District, the DWR proposes to allocate \$2.5 million in Proposition 13 bond funds as local assistance to the Three Rivers Levee Improvement Authority to construct setback levees along the Bear River in Yuba County. These funds would allow the Three Rivers Levee Improvement Authority to expedite flood protection for the Plumas Lakes Development.

The Finance Letter also proposes to extend the liquidation period for \$297,053 in Proposition 13 bond funds to allow grant recipients to complete feasibility studies and project design.

Previous Subcommittee Direction. At the May 1 meeting of the Subcommittee, this issue was held open pending additional information from the department on how priorities are set, and funding decisions made, in the Yuba Feather Protection Program.

Department Response. The department indicates that it no longer proposes to reallocate funds from the Colusa Basin Drainage District to the Three Rivers Levee Improvement Authority.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Reject this Finance Letter proposal to reallocate funding from the project in the Colusa Basin Drainage District to the Three Rivers Levee Improvement Authority.

- Approve the Finance Letter to extend the liquidation period to complete feasibility studies and project design.

6. Local Flood Control Subventions

Governor's Budget. The Governor's budget does not allocate any new funding to pay for local flood control subventions. Furthermore, one position supports the entire local flood control subvention program, including implementation of provisions in AB 1147.

Previous Subcommittee Direction. At the May 1 meeting of the Subcommittee, staff was requested to work with the LAO, DOF, and the department to evaluate options for providing \$10 million to Napa County to continue the development of the Napa River flood project. The Subcommittee also requested that the same group evaluate options for adding additional positions to the Local Flood Control Subventions Program to implement current law.

May Revision. The May Revision proposal includes \$100 million in General Fund monies for local flood control subventions. The proposal also includes \$1.3 million in General Fund monies to support seven positions to implement the Local Flood Control Subventions Program. The department proposes budget bill language to give the department three years to encumber these funds.

The proposal also includes budget bill language to allow expedited processing of \$10 million in claims from the Napa County. The remaining claims will be processed in chronological order, starting with the oldest claims.

Workload Justification. The department indicates that it currently has only one position supporting this program. This level of staffing will not allow for the timely processing of claims received by local governments. Furthermore, the department will not be able to review or analyze projects seeking new state authorization, including making determinations required by law about whether the flood projects meet multiple objectives and are eligible for full funding from the state.

Staff Comments. The state has not allocated funding for local flood control subventions in the last few budget years and currently owes \$238 million to locals. This liability is projected to grow to over \$815 million over the next ten years. The department indicates that it has on hand \$160 million in claims that it has received from local governments. Legislation was recently enacted to authorize a flood protection bond (AB 140, Nunez) that will be put before the voters in November 2006. This bond includes \$500 million in general obligation bond monies to pay additional arrearages owed local governments.

Staff Recommendation. Staff recommends that the Subcommittee approve the May Revision proposal.

7. All-American Canal Lining

Governor's Budget. The Governor's Budget proposes \$84 million from General Fund monies to fund the lining of the All-American and Coachella Canals.

Previous Subcommittee Direction. At the May 1 meeting of the Subcommittee, this issue was held open and the Subcommittee requested that the department provide additional information on the impact of the lawsuits on the construction schedule for the All-American Canal.

Department Response. The department indicates that it is not likely that construction will be stopped by the lawsuits that have been filed. The department continues to project that the Imperial Irrigation District will start construction on the All-American Canal in the budget year.

Staff Recommendation. Staff recommends that the Subcommittee approve this budget proposal.

8. Integrated Regional Water Management Program

Finance Letter. A Finance Letter (dated March 30, 2006) proposes to reappropriate \$78.2 million in Proposition 50 bond funds for Integrated Regional Water Management grants appropriated in 2003 and 2005. So far, the department has allocated approximately \$12.6 million in planning grants. In February 2006 the department announced a list of applicants that are invited to apply for the second round of implementation grants. The department projects that it will award contracts for implementation in the early part of 2006-07. Therefore, the department needs to reappropriate these funds.

Staff Recommendation. Staff recommends that the Subcommittee approve this Finance Letter request.

9. Extension of Liquidation Period – Various Bond Funds

Finance Letter. A Finance Letter (dated March 30, 2006) proposes to extend the liquidation period for the following bond funds:

- **Water Conservation and Groundwater Recharge Program.** The Finance Letter proposes to extend the liquidation period for \$509,146 in Proposition 204 bond funds to allow completion of a contract with a local water agency for the development of supplemental water sources, distribution systems, and recharge facilities in a watershed that is in a state of overdraft.
- **Local Projects Loan and Grant Program.** The Finance Letter proposes to extend the liquidation period for \$123,246 in Proposition 204 bond funds to allow for the completion of contracts with several local water agencies for feasibility study grants to determine water supply needs.
- **Pro-Act Floodplain Mapping.** The Finance Letter proposes to extend the liquidation period for \$62,500 in Proposition 13 bond funds to continue to cost share with the U.S.

Army Corps of Engineers for floodplain mapping efforts that identify flood-prone areas in California.

- **Flood Protection Corridor Program.** The Finance Letter proposes to extend the liquidation period for \$5.1 million in Proposition 13 bond funds for the completion of contracts with local governments and non-profit organizations to implement flood water conveyance improvements and transitory storage for peak flood water flows in floodplains.
- **Urban Streams Restoration Program.** The Finance Letter proposes to extend the liquidation period for \$975,286 in Proposition 13 bond funds to allow for the completion of several urban streams restoration projects.
- **Agricultural Water Conservation Program.** The Finance Letter proposes to extend the liquidation period for \$57,427 in Proposition 13 bond funds to complete feasibility study grant contracts with various local water agencies to improve agricultural water use efficiency.
- **Groundwater Recharge Facilities Loan Program.** The Finance Letter proposes to extend the liquidation period for \$2.9 million in Proposition 13 bond funds to complete a contract with a local water agency for a groundwater recharge construction project.
- **Urban Water Conservation Program.** The Finance Letter proposes to extend the liquidation period for \$810,615 in Proposition 13 bond funds to complete contracts with local water agencies for feasibility study grants and construction loans for urban water conservation projects.
- **Groundwater Recharge Facilities Loan Program.** The Finance Letter proposes to extend the liquidation period for \$8.7 million in Prop 13 bond funds to complete contracts with local water agencies for groundwater recharge construction projects.
- **Groundwater Storage Program.** The Finance Letter proposes to extend the liquidation period for \$21.5 million in Proposition 13 bond funds to complete contracts with local water agencies for conjunctive use feasibility studies, pilot projects, and construction projects.

Staff Recommendation. Staff recommends that the Subcommittee approve the Finance Letter proposal.

10. Infrastructure Rehabilitation Grant Program

Background. The Infrastructure Rehabilitation Grant program provides grant funding to local water agencies serving small and medium sized economically disadvantaged communities for cost-effective projects that rehabilitate or replace leaking or otherwise failing water distribution systems.

Finance Letter. The Finance Letter proposes to extend the liquidation period for \$46,517 in Proposition 13 bond funds allocated in 2001 to complete a contract with a local water agency for a feasibility study for a water distribution system replacement project.

The Finance Letter also proposes to extend the liquidation period for \$8.2 million in Proposition 13 bond funds allocated in 2003 for completion of contracts with local water agencies for water distribution system replacement projects.

May Revision. The May Revision proposes to revert \$2.9 million in Proposition 13 bond funds appropriated in 2004. The Yuba County Water District has returned these funds since its Forbestown Pipeline project can no longer proceed. The May Revision also proposes to reappropriate these funds to provide new grants for the Infrastructure Rehabilitation Grant Program or augment existing grants.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve the Finance Letter proposal to extend the liquidation period for this program.
- Approve the May Revision proposal for this program.

11. Groundwater Storage Grant Program

May Revision. The May Revision proposes to revert \$2 million in Proposition 13 bond monies from the Los Angeles Department of Water and Power's North Hollywood Wellfield Restoration Project. The department proposes to appropriate this savings for other groundwater storage program grant applications.

Staff Recommendation. Staff recommends that the subcommittee approve this budget proposal.

12. Other May Revision Proposals

May Revision. The May Revision includes the following proposals:

- **Pro Rata Reallocation.** The May Revision proposes to adjust the pro-rata allocation for the department among the department's different special funds. This adjustment results in a reduction in funding from the Electric Power Fund and an increase in funding from the State Water Project.
- **Provisional Language.** The May Revision proposes language to allow the Sacramento Area Flood Control Agency to pay the state for federal obligations. The U.S. Army Corps of Engineers did not receive adequate funding in 2006 to continue construction of the American River – Common Features Project to protect the Sacramento Pocket Area from flooding. Therefore, to continue construction, the local government will advance some monies with the intent of being reimbursed or credited for these advance payments. The state has also agreed to advance monies to the federal government to get the 29 critical erosion repairs completed before the end of the calendar year.

Staff Recommendation. Staff recommends that the Subcommittee approve these May Revision proposals.

3940 State Water Resources Control Board

1. Water Rights Program

Background. The board is responsible for regulating a number of surface water rights, including issuing new water rights, approving changes to existing rights, and enforcing existing rights. In 2003, legislation was enacted to implement water rights fees to shift funding for the board's water rights program from the General Fund to fees. The new fees are assessed annually on parties applying for or holding water rights that are under the jurisdiction of the SWRCB.

The water rights program was reduced by approximately \$3.3 million (about 30 percent) in 2002-03. The reductions to the water rights program have increased an already existing backlog of water rights applications pending at the board. This backlog has been further exacerbated by the new fee program given the extra staff time required to address issues related to fee collection.

Governor's Budget. The Governor's Budget includes \$3.6 million in special funds to improve the efficiency of the water rights program in processing water rights applications. The funds will support six new positions (\$669,000) to aid in reducing the current backlog of water rights applications and change petitions.

The remaining funding (\$2.9 million) will be used to fund a one-time investment in information technology upgrades to the board's water rights database management and tracking system. Funding for the database management and tracking system will be provided through a loan from the Underground Storage Tank Fund that will be paid back over a 5-year period in order to minimize increases to the water rights fees. This financing arrangement adds approximately \$400,000 to the total cost of the project.

Workload Justification. The six additional positions will enable the board to process about 25 more water rights applications annually. The current backlog of pending petitions and applications for water rights is nearly 1,200, and this will provide a marginal improvement to the program.

Furthermore, the board's current water rights database tracking system is antiquated and does not allow the board to easily comply with new mandates that require the board to enable the public to track water rights applications on the Internet. Furthermore, the current system does not do a good job of supporting the board in tracking and collecting water rights fees. A new system will be designed to comply with the new mandates and improve the efficiency of the department, thereby freeing up additional staff resources to process water rights applications. The board has completed the necessary feasibility study report.

Audit of Water Rights Program. The Bureau of State Audits (BSA) recently completed an audit on the board's Water Rights program. This audit found that a sampling of the board's water rights permit data had many errors. This data is the basis for setting water rights fees, which are based on the amount of water diverted by the permit holder. The board indicates that it plans to fix the errors found in the data sampling reviewed by BSA. The board also plans to

review and update other key water rights permits to ensure that they are correct. However, the LAO finds that the board does not have plans to review all of the permits in its system to ensure that the data that will be input into the new computer system will be accurate. Therefore, the LAO finds that the board may be charging fees that are based on erroneous and out of date information. The board indicates that, given existing budgetary resources, it will not be able to complete a comprehensive review of all of the records in its system to determine if they are correct.

Staff Recommendation. Staff recommends the Subcommittee take the following actions:

- Approve \$669,000 and six new positions to process water rights permit applications.
- Approve a \$2.9 million loan for information technology upgrades.
- Request that staff, DOF, the LAO, and the board evaluate options for adding additional funding to research and correct errors in the water rights permit database.

2. Bond-Funded Grant Programs

Background. The board implements several bond programs, including bond programs that support the CALFED program. Concerns have been raised over the last few years regarding the length of time it takes the board to award grants and contracts. The board has taken several actions to improve the efficiency of its bond program and to improve communication with potential applicants for bond monies. This has improved the board's bond program.

Governor's Budget. The Governor's budget proposes allocating bond monies to the following programs:

- **Groundwater Monitoring.** The budget proposes \$10 million from Proposition 50 bond funds to support the board's groundwater monitoring program.
- **Integrated Regional Water Management.** The budget proposes \$20 million from Proposition 50 bond funds to fund Integrated Regional Water Management grants.
- **Water Use Efficiency.** The budget proposes \$950,000 from Proposition 50 bond funds for grants to implement water recycling projects.
- **Watershed Program.** The budget proposes \$2.7 million from Proposition 13 bond funds for watershed restoration grants.
- **Non-Point Source Pollution.** The budget proposes \$4.7 million in Proposition 13 bond funds for non-coastal non-point source pollution grants. The budget also proposes \$1.5 million in Proposition 13 bond funds for coastal non-point source pollution grants.

The budget also proposes additional bond funding (around \$17 million) to support the CALFED program. (These funds will be considered as part of an overall CALFED package.) The budget also proposes to shift eight positions from the bond program to the Underground Storage Tank Program.

Workload Justification. The board indicates that the shift of eight positions from the bond program will result in a 10 percent reduction in staffing for the board's bond program. The board indicates that less than one-third of the bond funding allocated to the board remains

unallocated. Funding for some bond programs is completely committed and these positions are not needed at this time.

Staff Recommendation. Staff recommends that the Subcommittee adopt the board's non-CALFED bond proposals.

3. Underground Storage Tank Cleanup Fund Program

Governor's Budget. The Governor's budget proposes to shift eight positions that currently exist in the board's bond program to the Underground Storage Tank Cleanup Fund program. The budget also requests a one-time increase of \$10 million in expenditure authority of reverted funds to accelerate distribution of cleanup funds.

Previous Subcommittee Direction. At the meeting of Senate Budget Subcommittee #2 on April 3, 2006 the Subcommittee held open the proposal to redirect positions from the board's bond program and requested additional information supporting this proposal.

The Subcommittee approved the one-time \$10 million increase in Underground Storage Tank Cleanup Funds to pay additional claims.

Workload Justification. The board indicates that the payment processing time for this program has grown to 98 days. Current law requires the board to make payments within 60 days of receipt. Furthermore, the board indicates that it has suspended pre-approvals of corrective action costs, which is an important process for small businesses. Staff finds that the Legislature approved 9.5 new positions for this program in the current year to meet increased workload. However, additional workload, associated with implementing legislation (AB 1906, Lowenthal) enacted in 2004, has further increased the board's need for additional positions. This legislation will result in an additional \$33 million annually for the Underground Storage Tank Cleanup Fund program and requires the board to create a new program that funds cleanup of sites where there is no identifiable responsible party.

Staff Recommendation. Staff recommends that the Subcommittee adopt the Governor's proposal to shift eight positions from the bond program to the Underground Storage Tank Cleanup Fund program.

4. Other Budget Proposals

Governor's Budget. The Governor's budget also proposes funding for the following budget proposals:

- **Lake Tahoe TMDL.** The budget proposes \$64,000 in federal funds to support one 1-year limited-term position to complete implementation of the Lake Tahoe TMDL by 2008.
- **San Diego Transportation Projects.** The budget proposes \$85,000 in reimbursements to support one 2-year limited-term position to conduct and follow up on environmental reviews for transportation projects in San Diego.

Workload Justification. Two federal grants have been granted to the Lake Tahoe TMDL process totaling \$2.5 million. The board needs one position to coordinate the expenditure of these grant monies in order to explore new management strategies to reduce pollutants and to develop tools to track progress and performance of individual programs.

San Diego County currently has ten major transportation projects that are in various stages. The San Diego Association of Governments (SANDAG) is requesting that the board participate in the planning process for these transportation projects so that concerns regarding storm water pollution can be incorporated in the planning process. Incorporating features that deal with storm water pollution prevention during the planning process for transportation projects has the potential to realize significant cost savings in reducing pollution from storm water.

Staff Recommendation. Staff recommends that the Subcommittee approve these budget proposals.